



# Network synergies in branch renewal

Integrating decision-making across sales, service,  
marketing, security and IT

A Datamonitor Whitepaper for Cisco Systems, Inc.

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### INTRODUCTION

Given the various business functions involved in branch operations, Datamonitor believes there is significant potential for synergies and cross-departmental value-add in current branch renewal initiatives. However, this will require a pro-active effort of cooperation and integration of decision-making processes between areas that have traditionally been very separated. Based on a survey of over 50 key decision makers in retail banks across Europe, this whitepaper discusses some of the key trends and pain points in the industry with regards to branch operations, and discusses how these could be addressed by a more 'united' approach to branch renewal.

The key take-out points of this whitepaper are as follows:

- **Branch renewal.** Most IT investments with respect to branch renewal currently focus on the sales and services side, failing to take advantage of the potential synergies of integrating other areas of branch operations into the overall renewal initiative - such as in-branch marketing and physical security.
- **Branch marketing.** Lack of consistency of the marketing message and production costs are the greatest pain points with regard to printed marketing collateral in the branch. Also, banks see the failure to deliver marketing messages to customers whilst waiting to be serviced as the greatest problem with regards to queuing. Some banks are addressing these issues by introducing electronic marketing channels into their branches.
- **Branch security.** Cost of equipment/maintenance, lack of central control and lack of standards in procedures and equipment are the key pain points with regards to physical security in branches. This is to a large extent due to chronic under-investment and out-dated technology. However, banks are gradually investing in upgrading their security infrastructure to new generation technology such as digital video surveillance, offering more sophisticated functionality, automation and reduced maintenance cost.
- **A more 'united' approach to branch renewal.** The disjointed approach and separation of budgets between business functions result in investments being not leveraged to their full potential. Banks need to ensure that branch renewal is seen as a common project across the enterprise, and align the goals of separate functions to maximize the potential return of the wider branch renewal effort. Such an approach will reduce the pain of new investments whilst promoting cross-departmental value-add and innovation.

## CURRENT TRENDS AND PAIN POINTS

### Branch renewal

The past few years have seen retail banks re-discovering their branches as a key asset in their customer relationships. This is resulting in most institutions aggressively investing in their branch networks, with the aim to transform them from their traditional function as a provider of transaction services to more sales and advice oriented operations. These investments are widely referred to by the term *branch renewal*, and span from updating the layout and visual appeal of branches, hiring and re-training staff, to upgrading the IT infrastructure and desktop applications used by advisors to improve their ability to service and sell to customers.

### Branch technology

#### Driving legacy out of the branch

Having been neglected relative to the Internet and other remote channels in technology investment terms in the late 1990s, branches are now legacy-ridden environments and are not equipped to perform the higher-value tasks envisaged for them. The challenge facing banks is therefore to overcome the legacy problems in branches whilst enabling them to service and sell to customers more effectively through the implementation of operational CRM tools such as sales, service and marketing automation. In particular, Datamonitor believes that the following elements will drive branch technology expenditure going forward:

- **Upgrading the branch network infrastructure;**
- **Replacing legacy systems in branches;**
- **CRM-enabling the branch;**
- **Increasing self-service capabilities in branches;**
- **Process re-engineering.**

Networking cost-efficiencies should be one of the key business objectives sought through branch renewal. Large branch networks throughout Europe remain severely

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burdened by a heavy cost base associated with networking and communications. These costs fall into two main categories:

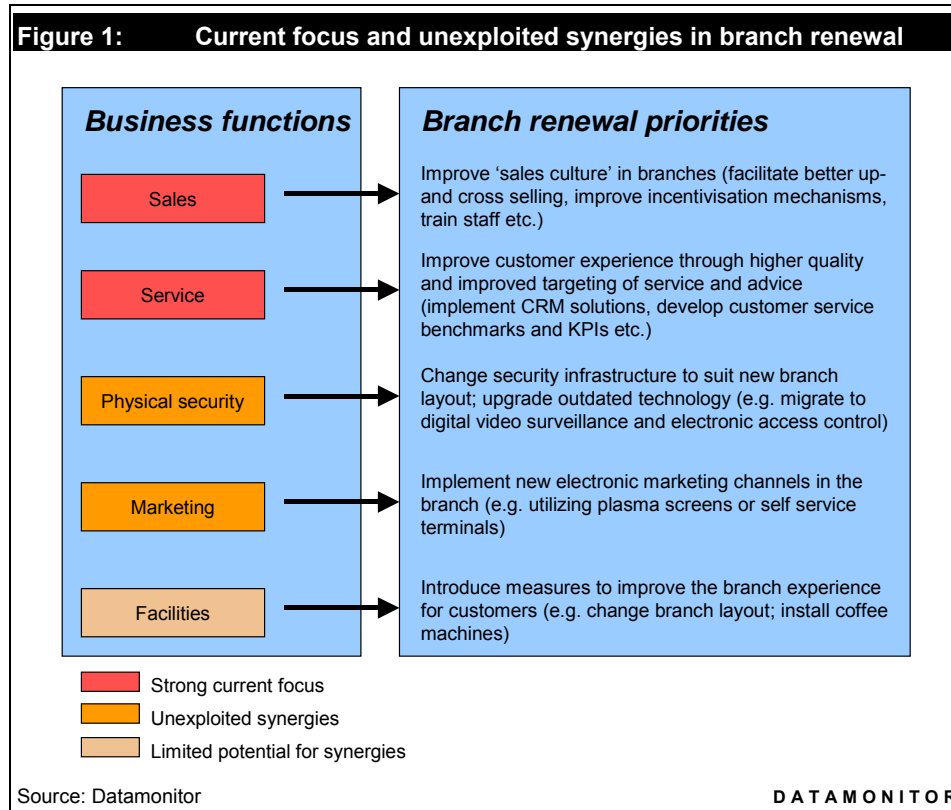
- **Communication costs resulting from branch networks being deployed on antiquated infrastructures;**
- **IT costs associated with bank branches operating in a client-server environment.**

These will be key targets as banks look to renew their branches. In particular, banks will tackle communication costs by turning to IP technology, which allows voice and data to be run over the same network thereby significantly simplifying the overall architecture and saving costs. Furthermore, IP technology affords banks greater flexibility to increase or reduce the size of branch networks, as well as to introduce video conferencing and remote advisor facilities in branches. Already a number of banks, such as Abbey National in the UK, have replaced their infrastructure with IP technology. These initiatives are coming hand in hand with general investments to increase bandwidth connecting the branch network, which will be necessary for the more advanced and data-intensive advisor applications banks are looking to roll out.

Similarly, banks can reap cost saving benefits from migrating branches from client-server environments to thin-client or browser-based ones. A browser-based environment in branches will both allow banks to run and maintain their branch IT systems centrally and enable them to rollout new applications simultaneously to all branches from a single central location. This will afford banks significant savings on both infrastructure and human resource spending and improve overall flexibility with respect to branch networks.

The discussion above makes clear that most IT investments with respect to branch renewal currently focus on the sales and services side. Whilst this is understandable due to the fact that these functions deliver the greatest and most direct impact to the bottom line (i.e. product sales), there are considerable synergies to be achieved by integrating other areas of branch operations into the overall renewal initiative. As Figure 1 shows, Datamonitor believes that the two business functions carrying the highest level of such unexploited synergies are the areas of in-branch marketing and physical security. Therefore, the following two sections will further drill down into the key pain points and opportunities of these two areas with regards to branch renewal.

## Network synergies in branch renewal



## Branch marketing

### The need to address cost, consistency and customer queues

Marketing in branches has not experienced significant change for decades. It typically consists of printed marketing material, which is centrally produced and physically distributed across the branch network. More specifically, in-branch marketing collateral is mostly a combination of the following:

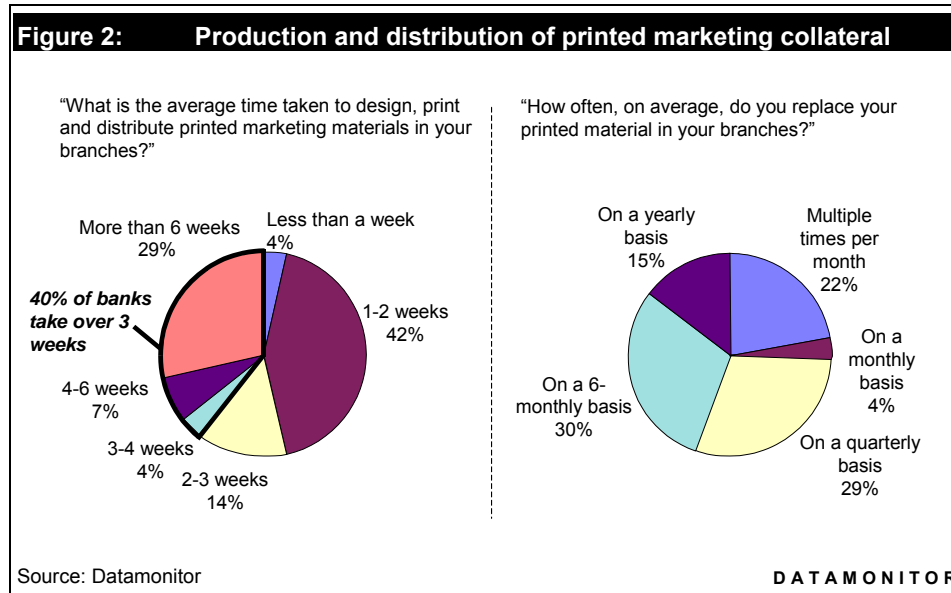
- **Information brochures/booklets;**
- **Information flyers;**
- **Product application forms (often as part of flyers/brochures/booklets);**
- **Posters.**

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Whilst these methods are extremely well established and can be considered a standard across the industry, banks increasingly feel the need to address some of the downsides of this pure print-based approach to marketing. The key issues with current in-branch marketing are as follows:

- **Maintaining consistency of marketing material across the branch network.** Coordinating the correct use, application and placement of marketing material across a large network of branches is a considerable challenge. Branch staff are often left out of the loop with regards to ongoing marketing campaigns, which generates an instant disconnect between centrally coordinated marketing strategy and local execution in branches. Due to this problem, central marketing functions often lose control over how marketing and product messages are communicated once new collateral is distributed to the branches.
- **Cost of production.** The use of printed marketing material in branches brings with it a considerable cost burden. The 'glossy' nature of most marketing collateral requires relatively high-cost printing methods and expensive paper, which is multiplied by the continuous need to update and re-distribute collateral across the branch network. In addition, the sheer amount of collateral that gets distributed to branches often is in no relation to actual demand, and merely serves the purpose of filling shelves to maximize the visual impact. Datamonitor estimates annual in-branch marketing expenditure in Europe to reach \$2.2 billion in 2004.
- **"Freshness" of printed marketing material.** The time, effort and logistical challenge connected with updating and distributing printed marketing collateral across the branch network also create difficulties with regards to the "freshness" of the marketing message. As shown in Figure 2, 40% of banks stated it takes over 3 weeks to design, print and distribute new marketing collateral to their branches (with almost a third of banks stating it takes over 6 weeks). This problem is bound to become even more pressing in a competitive environment where time-to-market – of both new products and the associated marketing message – is becoming increasingly important. Also the increasing regulatory pressures and scrutiny with regards to provision of detailed product information is likely to raise the frequency at which banks will have to update collateral.

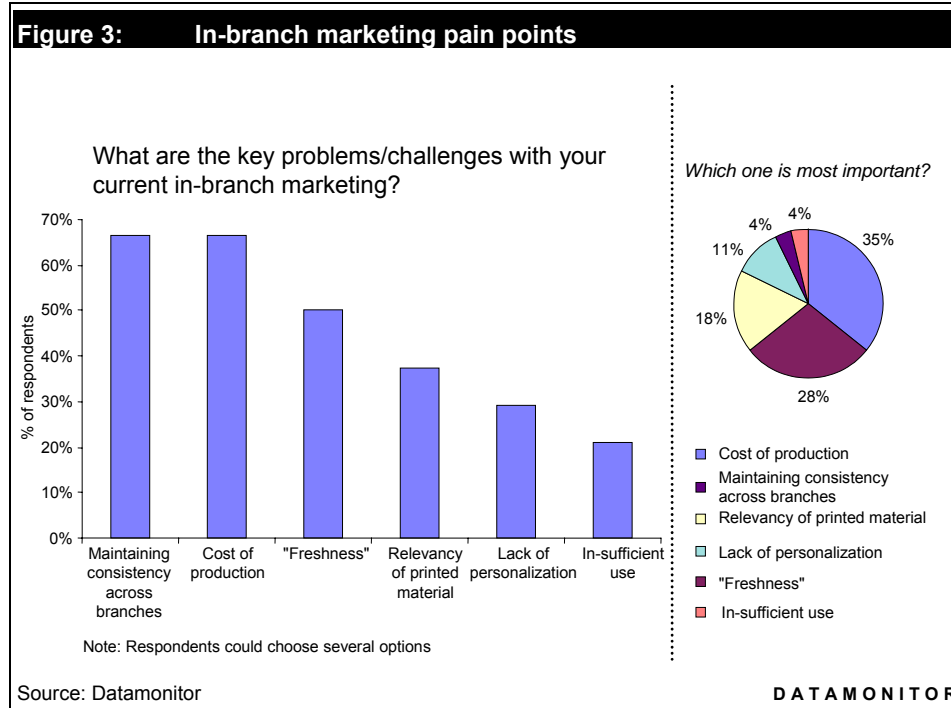
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- Relevancy of printed marketing material.** The current processes of producing and distributing collateral across the branch network makes it hard for marketing departments to take differences and intricacies of varying customer demographics in branches into account. Current in-branch marketing is largely applied using a “shotgun approach”, wasting opportunities of targeting specific customer segments with specific campaigns.

As Figure 3 shows, both concerns over consistency and cost of production were stated by 67% of respondents in our survey, followed by “Freshness” (50%) and relevancy (38%). In terms of priorities, production costs are clearly the most pressing concern amongst respondents (with 35% stating this as the greatest pain point), followed by consistency (at 28%) and relevancy (at 18%).

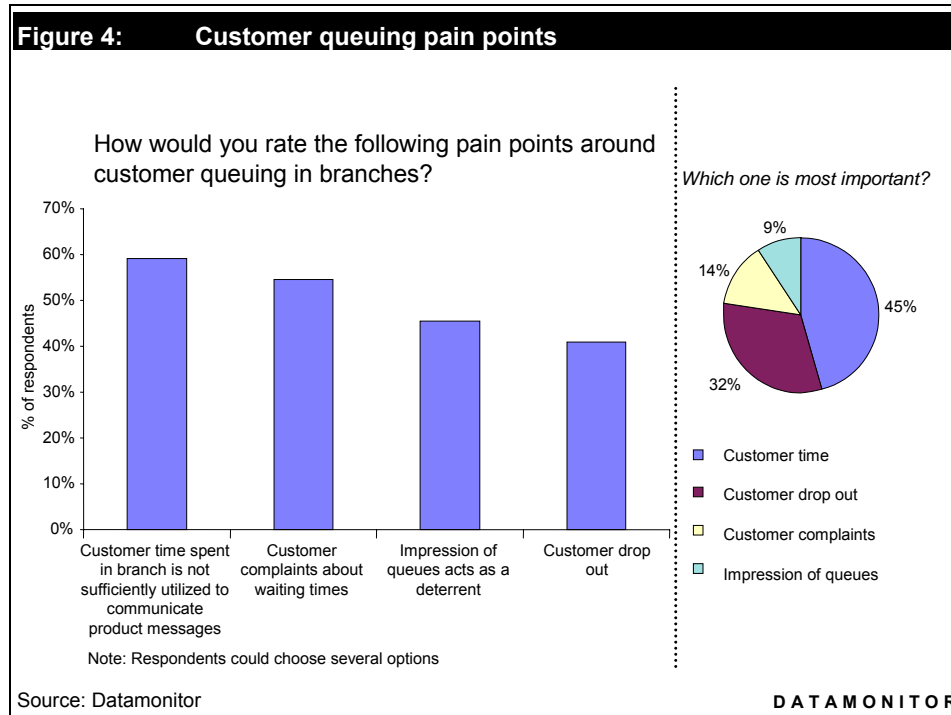
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In addition to the pain points discussed above, Datamonitor believes that the current, largely print-based, approach to in-branch marketing also fails to maximize on one significant opportunity to communicate product messages to customers whilst in the branch: the time spent queuing. According to our survey, customers will spend at least 3 minutes on average waiting to be serviced in the branch. This time span should be considered a unique opportunity to utilize customers' undivided attention, but is currently largely untapped by banks.

Interestingly, our survey shows that banks increasingly recognize this problem, with the largest proportion of respondents stating the failure to use waiting time to communicate product messages as their greatest pain point with regards to customer queues. More 'obvious' concerns with regards to queues, related to customer frustration (e.g. customer drop-outs and complaints), seem to be of a lower priority to banks than the missed marketing opportunity (see Figure 4).

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## Electronic in-branch marketing

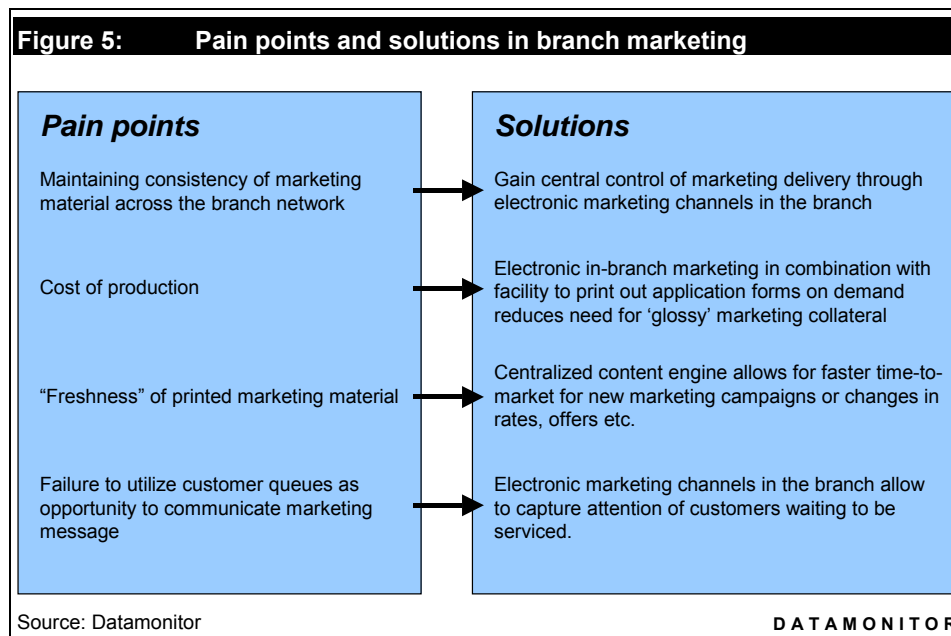
Some technically innovative banks recently have taken the step of addressing their in-branch marketing by introducing an entirely new approach: electronic in-branch marketing. In most cases this involved locally installed plasma screens across the branch network, with audio-visual content being broadcast from a centrally controlled content engine. Whilst such projects are still in their early or experimental stages, they promise to revolutionize in-branch marketing going forward. Specifically with regards to some of the pain points discussed above, electronic channels have the potential of addressing the following:

- Reduce cost of printed marketing collateral.** Electronic in-branch marketing is generally not considered as a complete replacement of printed material, mainly because it also fulfills the function of application forms designed to be taken home by customers. However, it can significantly reduce the costs associated, as it potentially removes the need for 'glossy' brochures (e.g. application forms could be printed out in the branch on demand). In addition, the cost of updating product information is significantly

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reduced with the elimination of the need to re-design, re-print and re-distribute vast amounts of printed collateral to reflect changes in rates, offers etc.

- Central and more sophisticated control over product message delivery.** Using a content engine that centrally controls the delivery of marketing across the branch network gives marketing departments total control over how and when product messages are delivered, directly addressing issues of consistency as discussed above.
- Address problem of customer queuing by taking advantage of marketing opportunity.** Electronic in-branch marketing channels can be used to communicate to customers whilst waiting to be serviced, providing an opportunity to reduce frustration and drop-out rates as well as deliver product information (e.g. by broadcasting a combination of entertainment, news items and marketing messages).



### Branch physical security

A function perceived as a pure cost center, struggling to secure budgets for improving functionality and efficiency

Datamonitor defines physical security in branches along the following three categories<sup>1</sup>:

- **Surveillance (e.g. CCTV);**
- **Intruder detection (e.g. alarms);**
- **Access control (e.g. doors, locks).**

Branch security is typically managed by a relatively small, central security department, overlooking all physical security across the enterprise. In most cases, the primary activity of the security department is the management of external vendor relationships, procurement and specification of requirements, as banks tend to outsource staff-intensive activities such as installation, maintenance and even monitoring to specialist security providers (e.g. ADT, Chubb, Securitas).

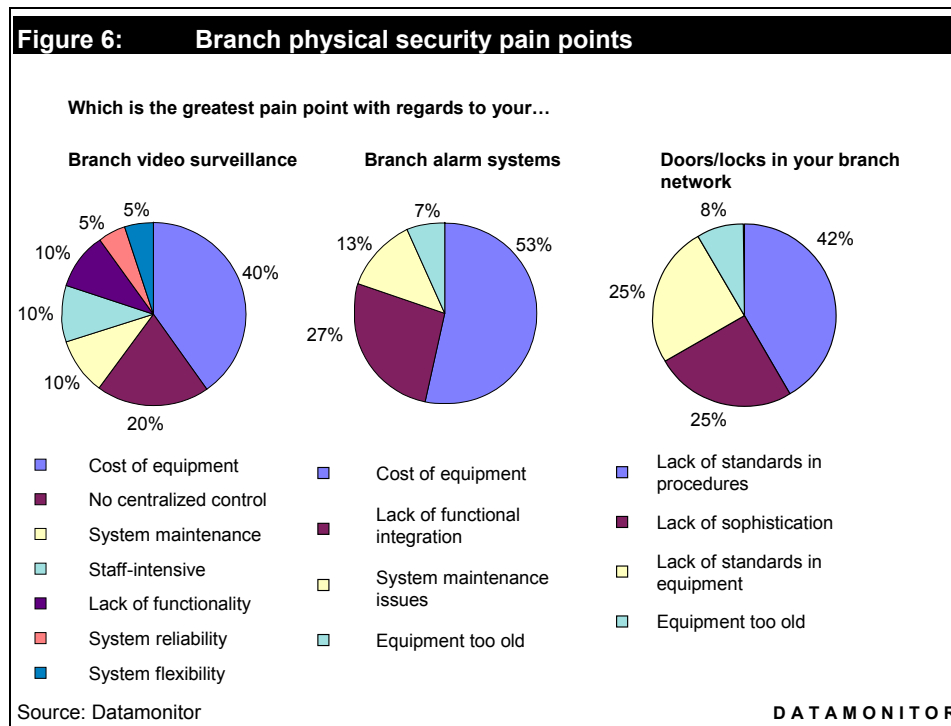
The treatment of physical security as a mere question of contract management as described above clearly shows that it is an area perceived as bringing no direct value-add or competitive advantage to the business. The old-fashioned view of branches as 'fortresses' holding significant amounts of cash in need of protection is largely inaccurate, with losses caused by robberies representing only minute financial risk to banks. In fact, the primary reason why banks are required to maintain a certain level of physical security across their branch network is due to health and safety regulations for the protection of branch staff.

Consequently, physical security is largely seen as a pure cost center, with banks showing little motivation to invest more than is required from them by the law. As a result, much of the physical security infrastructure to be found in European bank branches at present consists of relatively basic and often out-dated technology, causing costly process in-efficiencies and unnecessary risks.

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<sup>1</sup> The remit of this whitepaper does not include guarding, cash transport and ATM security.

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As shown in Figure 6, the key pain points with regard to physical security as perceived by banks are as follows:

- Cost of equipment.** Not surprisingly, cost - in particular of surveillance and detection equipment - is considered by far the greatest pain point by banks. The low priority of physical security as a compulsory investment that adds no business value puts security departments in a difficult position when negotiating budgets, making it hard to justify investments in new equipment when the old one 'does the job' already. 40% of respondents stated cost as the key problem area for video surveillance, and 53% for intruder detection.
- Lack of centralized control.** Particularly in video surveillance, it is still not unusual to find banks using relatively out-dated analogue technology in their branch network. CCTV footage is often recorded using analogue tape recorders in the branch, causing difficulties with the retrieval and storage of video footage. A considerable 20% of respondents in our survey stated lack of centralized control as primary problem area in video surveillance, clearly demonstrating that security managers would see major benefits in the ability to centrally access and control surveillance footage.

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- **Lack of functional integration between areas of physical security.** Due to technology and cost constraints, there is still a strong functional separation between different areas of physical security, such as intruder alarms, surveillance and access control (in some cases these three areas are even serviced by separate third party providers). This situation fails to take advantage of the potential benefits that could be achieved by closer integrating the functionality of different areas of security. Again, the relatively old and incompatible technology often used is the main barrier for such functional integration.
- **Maintenance.** Old security equipment and infrastructure brings with it a considerable maintenance burden. This issue is bound to become even more prominent as banks are looking to renew and change the layout of their branches, resulting in the need to move surveillance and detection equipment and lay new cabling.
- **Lack of standards in procedures and equipment.** Many branches still lack any sophisticated access control mechanisms. Simple physical keys are often used to lock premises, creating a host of problems and cumbersome procedures to make sure the right employees hold the right keys at the right time. This is further amplified by the relatively high staff turnover in branches, and the fact that several parties require access to branches at various times of the day (e.g. cash delivery to branches is often done during the night by third party guarding companies). This lack of standards causes both significant risk and cost for banks, and is clearly considered the greatest pain point with regard to access control: 42% of respondents stated a lack of standard procedures as the greatest problem, followed by 25% stating lack of standards of equipment and 25% stating lack of sophistication of equipment.

## Digitizing branch security infrastructure

As discussed above, much of the pain points with regards to current physical security infrastructure are caused by the lack of investment and antiquated technology often used by banks. A large proportion of banks still use analogue surveillance equipment, physical keys for access to branches and separate infrastructure for monitoring of intruder alarms. This hinders any progress with regards to enhancement of functionality or better integration of various areas of security.

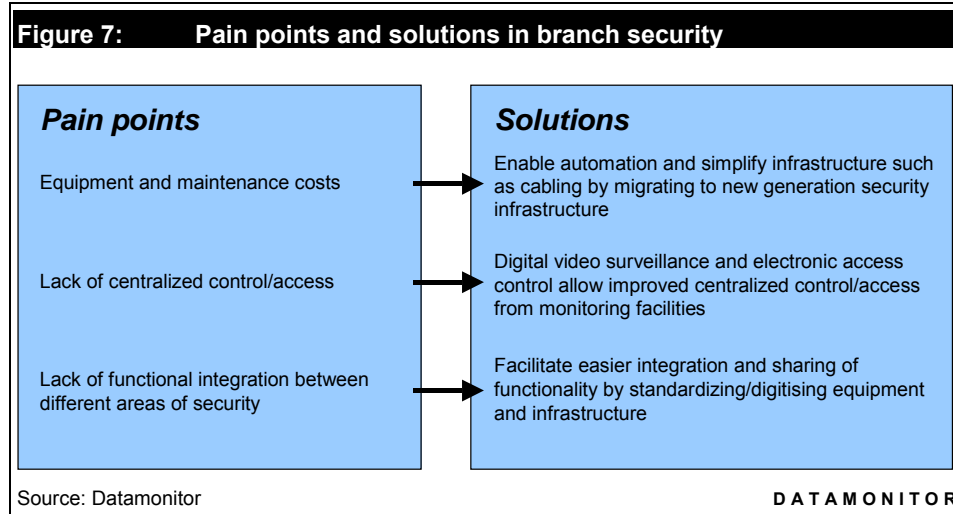
However, banks are gradually starting to recognize the benefits of updating their security infrastructure, with some branches being upgraded to new generation technology such as digital video surveillance (e.g. 35% of our survey respondents are

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already using digital storage for CCTV footage) or electronic access control mechanisms (e.g. smart cards). The key benefits of such a modern security infrastructure are as follows:

- **Reduction of long-term maintenance cost.** New generation security technology such as digital video surveillance will reduce long term maintenance cost due to the more efficient use of resources and automation: digital storage media eliminate the need for manual changing of tapes and are more re-useable; power over Ethernet reduces re-cabling costs due to the elimination of separate power supply (our survey shows that cabling represents up to 15% of external branch security cost).
- **Enabling central control/access.** Both surveillance and access control mechanisms would gain great benefits from digitization due to its ability to enable greater central control of the security infrastructure. Digital video surveillance allows central monitoring facilities to access footage across the network at relatively low cost; electronic doors/locks using smart cards will address the lack of standard procedures across the branch network and introduce the possibility to gather detailed data showing which employee accessed the branch at which point in time.
- **Improved standards and functional integration between various areas of security.** The digitization of equipment and infrastructure will introduce standards that will allow easier integration and sharing of functionality between different areas of security. Some examples for potential improvements could be: reducing false alarms by linking access control and intruder detection; linking CCTV and intruder detection systems to trigger the recording/transmission of particular events; enabling closer integration between physical and logical security through converged access control mechanisms.

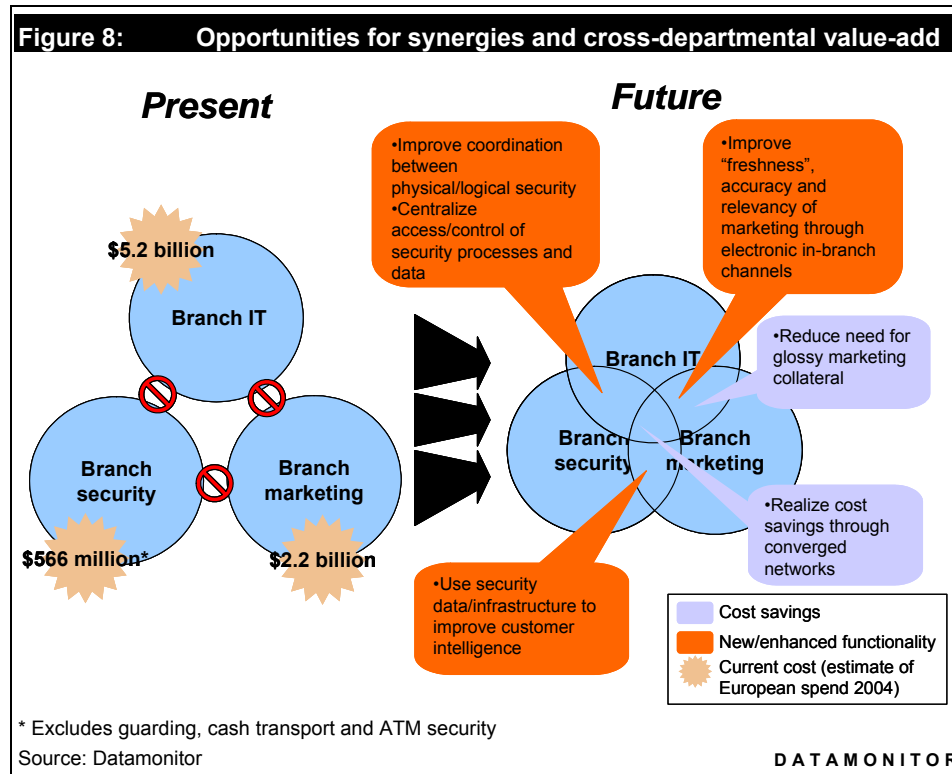
Network synergies in branch renewal



Network synergies in branch renewal

**IP TECHNOLOGY AS THE KEY TO UNLOCK SYNERGIES IN BRANCH RENEWAL**

The discussion of trends and pain points above clearly shows that most business functions that play a role in branch operations have sets of priorities directly relevant to – i.e. either caused by or in support of - the wider branch renewal effort. However, it also becomes clear that there is a severe lack of cooperation between different functions: IT, marketing and physical security departments work towards their own sets of priorities relatively independently, in many cases struggling to raise or justify the necessary budgets for projects that could significantly improve performance or efficiency of branch operations in the long term.



Promoting a more 'united' approach to branch renewal could facilitate more effective use of budgets by addressing the requirements or needs of several business functions through joint projects, whilst closer cooperation between departments could uncover possibilities of sharing information, data or functionality for entirely new purposes.

## Network synergies in branch renewal

Datamonitor believes that network convergence and IP technology has the potential to act as a significant driving force to uncover synergies and promote closer cooperation between various operational functions in branch renewal initiatives over the coming years. This is due to the following factors:

- **VoIP is one of the quick wins in branch renewal, and is paving the way for further network convergence.** As discussed earlier, many banks have already taken the step to converge data and voice networks in their branches through VoIP, realizing significant cost synergies in their communications infrastructure. These investments could be further leveraged by using IP technology in other parts of branch operations.
- **Bandwidth cost is declining rapidly.** Datamonitor expects the rapid decline of bandwidth cost to continue, which will further eliminate some of the barriers to broader network convergence and the inclusion of more bandwidth-intensive, enhanced functionality (e.g. video streaming).

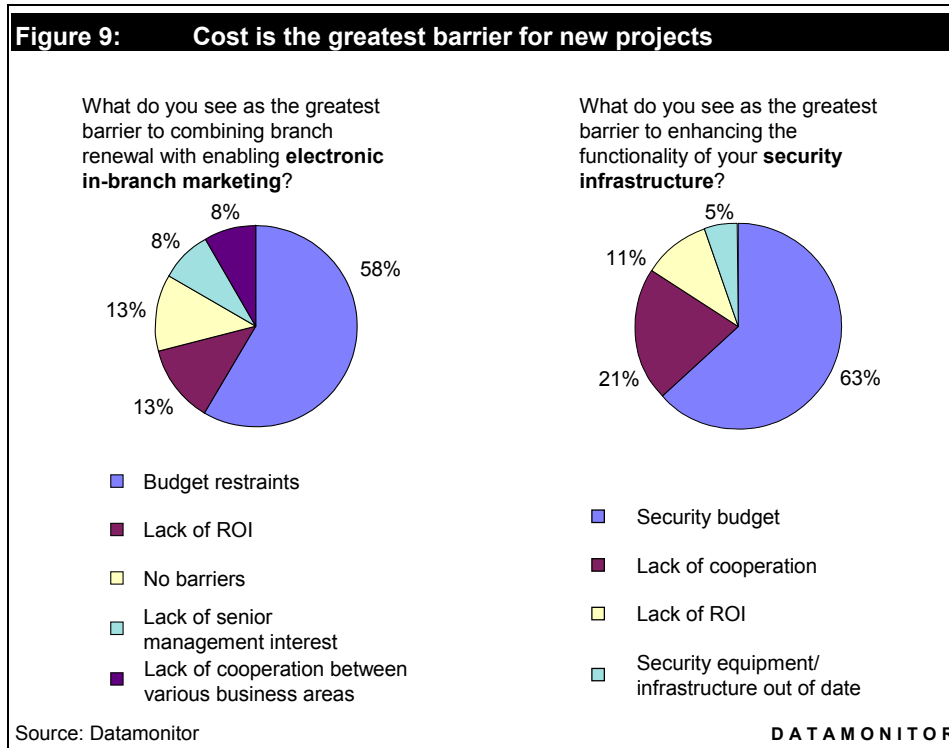
More specifically, the benefits of a more 'united' approach can be summarized in the following two key points:

- **Reduce pain of new investments by realizing infrastructure synergies**
- **Enable cross-departmental value-add to introduce new functionality**

Network synergies in branch renewal

Reduce pain of new investments by realizing infrastructure synergies

As our survey shows, both security and marketing departments are struggling to justify budgets for new projects, in particular when these strategically contribute to the wider branch renewal effort but have a weaker or less tangible short term ROI argument. The reason for this is that, in a business environment where short term ROI is still the key deciding factor for most technology investments, the pain associated with more strategic projects is often too great for the budgets available to individual business functions.



For this reason, Datamonitor believes there is considerable potential in a closer cooperation between business functions that have an interest or association to branch renewal. The synergies achievable through closer cooperation and sharing of budgets could significantly reduce the pain associated with new projects of a more strategic nature.

For instance, security departments have significant difficulty in justifying projects to enhance physical security infrastructure, equipment or functionality by themselves,

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whilst the required up-front cost is a significant barrier to the implementation of electronic in-branch marketing channels. However, this view looks at each of these projects individually, and not as part of the wider ambition of renewing branch operations. In this particular case, closer cooperation between IT, marketing and security departments could take advantage of the potential synergies in converged networks. Looking at the combined networking and bandwidth requirements of centrally controlled electronic in-branch marketing, centrally controlled digital surveillance or access control functionality and the ongoing network investments to improve desktop applications and CRM-ability in the branch will undoubtedly result in significant achievable synergies. Such an approach will bring the following benefits:

- **Make initiatives fund each other.** Taking a cross-departmental perspective on branch renewal will enable cost savings through synergies to be used for the mutual benefit of branch operations, allowing for reduced pain and a more proactive approach to strategic projects that would otherwise have difficulties raising sufficient budgets.
- **Turn network infrastructure into central utility.** Closer cooperation between separate business functions with regard to access to network infrastructure could further establish it as a central utility, building a foundation for further exploitation of synergies in any future projects related to branch operations. For example, Datamonitor's survey shows that connectivity to central monitoring facilities can make up to 28% of cost for a banks' intrusion detection infrastructure – a figure that could be radically reduced leveraging IP and existing network infrastructure instead of separate leased lines.
- **Improve long-term agility of branch network.** Better integrated decision making processes and the promotion of central utilities as described above will significantly improve the agility and flexibility of branch operations as a whole, supporting any future growth of the branch network as well as new approaches to branch banking (e.g. mobile branches).
- **Reduce management cost.** The improved automation and integration of processes using converged network infrastructure has the potential of significantly reducing the management cost of branch operations. Again, taking physical security as an example, the centralization of security operations by implementing digital devices and standardizing connectivity over IP could drastically reduce the cost caused by false alarms and other staff and management cost.

## Network synergies in branch renewal

### Enable cross-departmental value-add to introduce new functionality

In addition to cost, efficiency and effectiveness benefits as described above, a more 'united' approach will pave the way for increased cross-departmental value-add, potentially promoting new and innovative uses of existing infrastructure and technology. Various business functions would gain great benefit from sharing information, data, functionality and other resources that have for a long time been kept separate in individual silos of the enterprise.

The following two examples are only an indication of the multiple possibilities and innovations a more 'united' approach to branch renewal could promote:

- **Convergence of physical and logical security.** Security and IT decision makers increasingly recognize that the traditional separation between physical security (i.e. surveillance, intruder detection, access control) and logical security (i.e. access to data, applications and networks) is causing unnecessary risks and extra cost. Closer cooperation between these two functions could facilitate a more comprehensive approach to branch security and establish greater leverage for future joint security projects (e.g. converged logical and physical access solutions using smart cards).
- **Use security data to gain new business intelligence.** Data collected by physical security could be used to develop real-time insight into customer behavior. Banks are increasingly turning to technology to provide them with innovative approaches to branch utilization/footfall analysis and customer service benchmarks. One recent example is Lloyds TSB in the UK, which has recently expanded an experimental project using branch video footage and sophisticated analytics to monitor customer service levels in branches and reduce waiting time.

### CONCLUSION AND ACTION POINTS

Whilst there is no doubt that banks across Europe are strongly committed to branch renewal, the disjointed approach and separation of budgets between various business functions often result in investments being not leveraged to their full potential. Datamonitor believes that banks need to ensure that branch renewal is seen as a common project across the enterprise, and align the goals and objectives of separate business functions to maximize the potential return of the wider branch renewal effort.

Network convergence and IP technology could be leveraged as a basic building block in this effort. With many banks already having taken the step to converge their data and voice networks, establishing the network as a central utility for all parts of the branch operation could be a quick win in uncovering further synergies (e.g. with electronic in-branch marketing or physical security operations).

In order to ensure that such common goals are recognized across the organization, banks need to take the following steps:

- **Integrate decision-making.** Banks must put formal processes into place that facilitate better integration of decision making processes and sharing of responsibilities across all business functions associated to branch operations.
- **Educate key stakeholders.** Stakeholders responsible for separate parts of branch operations may struggle to recognize the benefit and wider purpose of having to cooperate with areas they see no direct affiliation with. Therefore, significant effort is required to educate all parties involved and achieve management buy-in across the organization.
- **Consolidate ROI models to reflect a holistic view of branch renewal.** ROI calculations for individual projects could fail to take into account the wider benefit and synergies achievable by combining investments with other branch renewal initiatives. It is therefore necessary to consolidate budgets and ROI models related to branch operations, which will allow for reduced pain for individual investments and promote more strategic initiatives and innovation.